

Message Text

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QUOTE: LIMITED OFFICIAL USE SEOUL 5128

E.O. 11652: N/A

TAGS: SA EIND KS

SUBJ: KOREAN SECOND PHASE JUBAIL PORT CONSTRUCTION CONTRACT

REF: STATE 155858, SEOUL A-7 (NOTAL)

BEGIN SUMMARY: THIS MESSAGE REPORTS DETAILS OF A LANDMARK CONTRACT BY THE SAUDI ARABIAN GOVERNMENT WITH HYUNDAI CONSTRUCTION COMPANY OF KOREA CONCERNING WHICH THE DEPARTMENT REQUESTED CLARIFICATION. END SUMMARY.

BEGIN UNCLASSIFIED:

1. CONTRACT DATED NOVEMBER, 1975 BETWEEN HYUNDAI CONSTRUCTION COMPANY AND THE SAUDI ARABIAN MINISTRY OF COMMUNICATIONS FOR CONSTRUCTION OF THE SECOND PHASE OF THE JUBAIL PORT PROJECT WAS SIGNED JUNE 16, 1976 WITH COMPLETION SCHEDULED FOR 1979. THE SAG HAS RETAINED SIR WILLIAM HALCROW AND PARTNERS, NEWCOMBE HOUSE, 45 NOTTING HILL GATE, LONDON W1135X, TO SUPERVISE CONTRACT WHICH IS DENOMINATED IN RIYALS 3,259,043,608 EQUIVALENT TO APPROXIMATELY \$944.65 MILLION BASED ON 3.45 TO \$1.00 RATE ON LIMITED OFFICIAL USE

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DATE OF SIGNING. END UNCLASSIFIED.

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2. ARRANGEMENTS FOR POSTING A PERFORMANCE BOND (10 PERCENT OF CONTRACT VALUE) AND AN ADVANCE PAYMENT GUARANTEE (20 PERCENT OF CONTRACT VALUE) WERE CONSIDERABLY MORE COMPLICATED THAN WAS SUGGESTED BY THE CITED NEW YORK TIMES ARTICLE. AS PIECED TOGETHER FROM MINISTRY OF FINANCE AND BANKING SOURCES HERE, HYUNDAI HAD ORIGINALLY ARRANGED WITH THE BANK OF BAHRAIN TO PROVIDE THIRD COUNTRY CONFIRMATION FOR THE ENTIRE \$283 MILLION PERFORMANCE BOND AND ADVANCE PAYMENT GUARANTEE COMBINED (BY THIRD COUNTRY CONFIRMATION WE MEAN STANDBY CONFIRMATION BACKING UP A KOREA EXCHANGE BANK (KEB)-KOREAN BANK SYNDICATE ENDORSEMENT OF A BOND OF GUARANTEE WHICH IS ISSUED, AS REQUIRED UNDER SAUDI REGULATIONS, BY A LOCAL SAUDI ARABIAN BANK). THE BANK OF BAHRAIN, WHICH APPARENTLY HOLDS HYUNDAI IN VERY HIGH REGARD, HAD PREVIOUSLY PROVIDED THE ENTIRE BACKUP CONFIRMATION FOR A SMALLER HYUNDAI PROJECT. THIS LATEST ARRANGEMENT FELL THROUGH WHEN THE SAUDIS WERE UNWILLING TO ACCEPT THE BANK OF BAHRAIN AS THE SOLE THIRD COUNTRY CONFIRMATION FOR A GUARANTEE OF THIS MAGNITUDE. WHEN HYUNDAI THEN BELATEDLY SOUGHT TO UTILIZE THE SYNDICATED \$150 MILLION STANDBY GUARANTEE SIGNED BY KEB WITH AN INTERNATIONAL BANKING CONSORTIUM IN HONG KONG ON APRIL 26 (SEE REF SEOUL 1452), THEY WERE TOLD IT WOULD BE IMPOSSIBLE TO COMPLETE ARRANGEMENTS IN TIME TO MEET THE JUNE 16 DEADLINE, WHICH WAS ONLY DAYS AWAY. AT THAT POINT, CHUNG IN-YONG, DIRECTOR OF THE BUREAU OF INTERNATIONAL FINANCE, ROKG MINISTRY OF FINANCE, FLEW TO SAUDI ARABIA AND SUCCEEDED IN WORKING OUT AN ARRANGEMENT WHEREBY THE NATIONAL COMMERCIAL BANK (NCB) OF SAUDI ARABIA ISSUED THE PERFORMANCE BOND AND ADVANCE PAYMENT GUARANTEE WITH AN INITIAL ENDORSEMENT ONLY BY THE KEB-KOREAN BANK SYNDICATE, BUT WITH AN UNDERSTANDING THAT NCB WILL ORGANIZETS SYNDICATE, EX-POST, TO PROVIDE FURTHER STANDBY CONFIRMATION. NCB WILL REPORTEDLY PICK UP 50 PERCENT OF THE PERFORMANCE BOND STANDBY CONFIRMATION ITSELF (\$47 MILLION) AND THE BANK OF BAHRAIN WILL BE ACCEPTED FOR 10 PERCENT OF THE WHOLE PACKAGE (\$28 MILLION). NCB INTENDS TO APPROACH BANKS IN OTHER ARAB COUNTRIES AS WELL AS EUROPEAN AND U.S. BANKS FOR THE BALANCE OF THE SUBSCRIPTION (ABOUT 75 PERCENT OF THE TOTAL). THIS MAY, IN FACT, INCLUDE SOME OF THE BANKS PARTICIPATING IN THE ORIGINAL, AND AS YET UNUSED, \$150

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MILLION STANDBY. WE UNDERSTAND THAT, AS A SWEETNER, THE ENTIRE 20 PERCENT ADVANCE PAYMENT WAS DEPOSITED WITH NCB FOR THE TIME BEING, WITH NCB PAYING A DEPOSIT RATE OF ABOUT 2 PERCENT.

3. THE ROKG, MEANWHILE, HAS ASSURED THE MANAGERS OF THE EXISTING \$150 MILLION STANDBY GUARANTEE THAT THERE WILL BE AMPLE OPPORTUNITIES UPCOMING TO DRAW ON THAT ARRANGEMENT FOR CONFIRMATION ON OTHER PROJECTS. IN SUM, THE SAUDIS ARE NOT YET READY TO

ACCEPT KOREAN BANK ENDORSEMENTS WITH NO ADDITIONAL BACKING. HOWEVER, THE FACT THE SAUDIS WERE WILLING TO ALLOW THE BACKUP CONFIRMATION TO BE ARRANGED EX-POST IN THIS INSTANCE, AS WELL AS TO ALLOW NCB TO HANDLE \$47 MILLION ITSELF, SUGGESTS THE SAUDI'S CONFIDENCE IN KOREAN BANK GUARANTEES IS GROWING.

4. CONTRACT DOCUMENT REQUIRES CONTRACTOR TO TREAT CONTRACT AND ANYTHING IT CONTAINS AS "PRIVATE AND CONFIDENTIAL". THE "ESCALATOR" CLAUSE PROVIDES FOR INCREASES OR DECREASES IN WAGE COSTS FOR NON-IMPORTED LABOR AND ANY MATERIALS AS LISTED AND PRICED IN THE TENDER DOCUMENT. IT APPEARS TO BE A STANDARD CLAUSE WHICH MAY APPEAR IN FUTURE CONTRACTS. IT READS AS FOLLOWS: QUOTE

(1) IF, UNDER DECISION OF ANY BODY RECOGNIZED AS AN APPROPRIATE BODY FOR REGULATING THE RATE OF WAGES IN WORKS OF CIVIL ENGINEERING CONSTRUCTION OR IN ANY OTHER TRADE OR INDUSTRY, OR BY REASON OF ANY RULING OR SANCTION OF THE GOVERNMENT OF KINGDOM OF SAUDI ARABIA THERE SHALL DURING THE CURRENCY OF THE CONTRACT BE ANY INCREASE OR DECREASE IN THE WAGES OR THE RATES OF WAGES OR IN ALLOWANCES (INCLUDING ALLOWANCES IN RESPECT OF HOLIDAYS) PAYABLE TO OR IN RESPECT OF LABOR OF ANY KIND PREVAILING AT THE DATE OF TENDER AS THEN FIXED BY THE APPROPRIATE BODY AS FORESAID OR BY GOVERNMENT RULING OR SANCTION OR ANY INCREASE IN THE AMOUNT PAYABLE BY THE CONTRACTOR BY VIRTUE OR IN RESPECT OF ANY SCHEME OF STATE INSURANCE WHICH INCREASE (OR INCREASES) OR DECREASE (OR DECREASES) SHALL RESULT IN AN INCREASE OR DECREASE OF COST TO THE CONTRACTOR IN CARRYING OUT THE WORKS THE NET INCREASE OR DECREASE OF COST SHALL FORM AN ADDITION TO, OR AS THE CASE MAY BE, DEDUCTION FROM THE CONTRACT PRICE AND BE PAID TO OR ALLOWED BY THE CONTRACTOR ACCORDINGLY. THE PROVISIONS OF THIS CLAUSE SHALL APPLY ONLY TO NON-IMPORTED LABOR AND NO CLAIM WILL BE ADMITTED CONCERNING ANY INCREASE IN THE WAGES OR RATES OF WAGES OR IN THE ALLOWANCE LIMITED OFFICIAL USE

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PAYABLE TO OR IN RESPECT OF IMPORTED LABOR OR STAFF.

(2) IF, AFTER THE DATE OF TENDER THERE SHALL BE AN INCREASE OR DECREASE IN THE COST PREVAILING AT SUCH DATE OF ANY OF THE MATERIALS NAMED IN THE SCHEDULE OF MATERIALS ANNEXED TO THE BILLS OF QUANTITIES AND PRICED BY THE CONTRACTOR WITH THE TENDER AND PURCHASED BY THE CONTRACTOR OR HIS SUB-CONTRACTOR AT RULING MARKET PRICES, WHICH INCREASE (OR INCREASES) OR DECREASE (OR DECREASES) RESULT IN AN INCREASE OR DECREASE OF COST TO THE CONTRACTOR IN CARRYING OUT THE WORKS THE NET INCREASE OR DECREASE OF COST SHALL FORM AN ADDITION OR DEDUCTION AS THE CASE MAY BE TO OR FROM THE CONTRACT PRICE AND BE PAID TO OR ALLOWED BY THE CONTRACTOR ACCORDINGLY. THE APPLICATION OF THIS SUBCLAUSE SHALL ONLY APPLY TO THE LISTED MATERIALS IN THE TENDER DOCUMENT AND THE CONTRACTOR WILL NOT BE PERMITTED TO ADD ANY ADDITIONAL MATERIALS TO THE LIST."

5. WAGES TO BE PAID ARE NOT CONTAINED IN THE CONTRACT, ORDINARY KOREAN LABOR WILL RECEIVE \$1,200 TO 1,300 PER MONTH, AND ENGINEERS FROM \$2,000 TO 3,000 PER MONTH (INCLUDING COST OF AIR FARES). HYUNDAI WILL PROVIDE DORHXLHNLJES AND FOOD AT SUBSIDIZED COST AND WILL INITIALLY DISPATCH 5,000 PEOPLE TO SAUDI ARABIA WITH ABOUT THAT NUMBER TO BE EMPLOYED ON SITE THROUGH COMPLETION. THERE IS NO LIMIT ON SALARY WHICH CAN BE DRAWN IN SAUDI ARABIA, BUT SALARIES MINUS DRAWINGS WILL BE PAID IN WON IN KOREA BY HYUNDAI.

6. HYUNDAI'S PROJECT COST SUMMARY SHOWS TOTAL ANTICIPATED COST OF \$745,314,460. BROKEN DOWN INTO OVERSEAS EXPENDITURES OF \$420,345,060 (56 PERCENT) AND EXPENDITURES IN KOREA OF \$324,969,400 (44 PERCENT). DETAILED BREAKDOWN SHOWS PROFIT AT 20 PERCENT OF CONTRACT AMOUNT. AFTER INITIAL 20 PERCENT DOWN PAYMENT, PROGRESS PAYMENTS WILL BE MADE MONTHLY THROUGH PROJECT COMPLETION UP TO 90 PERCENT OF THE CONTRACT AMOUNT. REMAINING 10 PERCENT WILL BE PAID HYUNDAI UPON EXPIRATION OF A 365 DAY WARRANTY PERIOD. IN NEAREST MILLION DOLLAR COSTS ARE DIVIDED AS FOLLOWS:

	TOTAL	KOREAN	OVERSEAS
MATERIALS	285.	127.	158.
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LABOR	177.	156.	21.
EQUIPMENT	65.	22.	43.
EXPENSES	128.	20.	108.
ESCALATION	40.	-	40.
RESERVE			
CONTINGENCY	50.	-	50.
RESERVE			

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7. BEGIN UNCLASSIFIED: FOREIGN PROCUREMENT WILL INCLUDE EXPLOSIVES, STEEL STRUCTURES AND PAINTS, OIL, DREDGING PIPE AND PARTS, OCEAN FREIGHT AND HEAVY EQUIPMENT AND PARTS. DIRECT U.S. INVOLVEMENT MAY INVOLVE SALES OF HEAVY EQUIPMENT SUCH AS GENERATORS AND CRANES AND INCLUDES A \$30 MILLION PORTION OF THE CONTRACT UNDER WHICH BROWN AND ROOT WILL PROVIDE SPECIALIZED EQUIPMENT FOR OFFSHORE WORK IN BUILDING A TANKER TERMINAL FOR THE PORT. END UNCLASSIFIED.

8. EMBASSY HAS OBTAINED A SINGLE COPY OF THE CONTRACT DOCUMENT
AND PROJECT PLAN WHICH IT WILL FORWARD LOU IN RESPONSE TO REQUEST
BY DEPARTMENT OR ADDRESSEES.
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